

Message Text

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E.O. 11652: GDS

TAGS: PFOR, ECON, EMIN, JM

SUBJECT: BAUXITE COMPANIES MEET WITH UNDER SECRETARY ROGERS

1. SUMMARY. UNDER SECRETARY ROGERS SAW REYNOLDS, ALCOA, KAISER AND REVERE EXECUTIVES WEEK OF JULY 19. IMPORTANT DIFFERENCES IN CORPORATE POLICIES AND STYLE WERE APPARENT BUT ALL COMPANIES FEEL THEY ARE MAKING PROGRESS TOWARD RESOLUTION OF THEIR DISPUTES WITH GOJ. KAISER AND ALCOA BELIEVE THEY HAVE A GOOD CHANCE OF CONCLUDING FINAL AGREEMENTS WITHIN NEXT FEW WEEKS, REYNOLDS BEFORE END OF YEAR. REVERE IS SPECIAL CASE, BUT ANTICIPATES DECISION IN CIVIL SUIT THIS FALL AND FEELS THERE IS STILL POSSIBILITY OF SALES DEAL WITH GOJ. ALL COMPANIES SERIOUSLY CONCERNED ABOUT POLITICAL SITUATION BUT SAID THEY HAVE NOT YET BEEN DIRECTLY AFFECTED. THEIR FORECASTS FOR THE JAMAICAN ECONOMY ARE PESSIMISTIC BUT THEY BELIEVE GOJ WILL NOT RAISE BAUXITE LEVY ABOVE PRESENT 8 PERCENT AND WILL CONTINUE TO BE FLEX-
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IBLE ON MINIMUM PRODUCTION REQUIREMENTS. ROGERS TOLD

COMPANIES DESTABILIZATION CHARGES ARE NONSENSE INsofar AS
USG IS CONCERNED, STRESSED OUR DESIRE TO IMPROVE RELATIONS
WITH GOJ, AND REITERATED USG DESIRE TO BE HELPFUL IN
ARRIVING AT MUTUALLY SATISFACTORY AGREEMENTS BETWEEN GOJ
AND COMPANIES.

2. REYNOLDS. DRAFTING OF FINAL CONTRACTS HAS BEEN UNDERWAY
FOR FOUR MONTHS. REYNOLDS WANTS TO SEE FINAL KAISER
AGREEMENT BEFORE SIGNING BUT ANTICIPATES SETTLEMENT BY
END OF YEAR. REMAINING PROBLEMS INCLUDE GOJ REQUEST THAT
REYNOLDS GUARANTEE TO TAKE CERTAIN AMOUNT OF BAUXITE
OVER 30-YEAR PERIOD, WHICH COMPANY FINDS UNACCEPTABLE.
REYNOLDS ALSO ANTICIPATES DIFFICULTIES WITH FUTURE GOJ
ROLE IN MANAGEMENT. REYNOLDS BELIEVES THEY WILL CONTINUE
TO HAVE A JAMAICAN SOURCE OF BAUXITE BUT MADE CLEAR THEY
ARE TAKING STEPS TO DIVERSIFY THEIR SOURCES AND BECOME
MORE INDEPENDENT OF JAMAICA. THEY ARE EXPANDING IN
WESTERN AUSTRALIA AND BRAZIL.

3. ALCOA. CHARLES PARRY, VP FOR RAW MATERIALS, HAD JUST
RETURNED FROM NEGOTIATIONS IN JAMAICA AND SAID THEY ARE
GOING VERY WELL WITH NO SERIOUS DISAGREEMENTS. ALCOA
AND GOJ ARE NEGOTIATING ENTIRELY NEW AGREEMENT TO INCLUDE
GOJ EQUITY IN ALL ALCOA JAMAICAN OPERATIONS, INCLUDING
ALUMINA REFINING. AGREEMENT CONTAINS PROVISIONS FOR
STABLE PRODUCTION LEVY RATE, INTERNATIONAL ARBITRATION,
AND MINIMUM PRODUCTION REQUIREMENT. UNLIKE OTHER COM-
PANIES, ALCOA WANTS TO INCLUDE GOJ AS SIX PERCENT EQUITY
PARTNER IN ENTIRE JAMAICA OPERATION THROUGH REFINERY
STAGE. ALCOA FEELS ITS POSITION IS RELATIVELY STRONG
BECAUSE OF AUSTRALIAN RESERVES.

4. KAISER. CORNELL MAIER, PRESIDENT AND CHIEF EXECUTIVE,
SAID EDGAR KAISER HOPES TO ATTEND NEXT SESSION IN ABOUT
TWO WEEKS AND SIGN FINAL AGREEMENT WITH GOJ. MAIER FELT
NEGOTIATIONS HAD BEEN PROLONGED MAINLY BECAUSE MEYER
MATALON AND ROUSSEAU ARE THE ONLY ONES CAPABLE OF REPRESENTING THE GOJ. KAISER WILL CONTINUE IN JAMAICA, WHICH
WILL BE IMPORTANT SOURCE OF BAUXITE REGARDLESS OF WHO
RUNS THE GOVERNMENT.

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5. REVERE. GOJ IS EXPECTED TO CONCLUDE ITS CASE IN CIVIL
SUIT EARLY IN THE FALL, PERMITTING DECISION BEFORE END
OF THE YEAR. MOLOWA SAID CHIEF JUSTICE SMITH IS CON-
DUCTING FAIR TRIAL. SHOULD REVERE LOSE, THEY WILL GO TO
COURT OF APPEALS AND, IF NECESSARY, PRIVY COUNCIL. REVERE
STILL SEES VARIETY OF POSSIBILITIES FOR SETTLING ITS
CLAIMS BUT IS NOT OPTIMISTIC ABOUT ANY OF THEM. BEST

ALTERNATIVE TO CASH SALE, WHICH SEEMS UNLIKELY, WOULD BE DEAL INVOLVING SOUTHWIRE PLUS--POSSIBLY--SOME FOREIGN PARTNER, PROBABLY MEXICO. MOLOWA SAID REVERE WOULD LISTEN TO ANY REASONABLE OFFER BUT DID NOT WANT TO INVEST ANY MORE OF ITS OWN MONEY AND HAD ALREADY COVERED ITS BAUXITE NEEDS FOR NEXT FIVE YEARS FROM OTHER SOURCES.

6. QUESTIONS OF POLICY AND STYLE:

A. AS USUAL, ALCOA TOOK THE TOUGHEST LINE: "THEY DON'T HAVE AN ALTERNATIVE MARKET FOR BAUXITE AND THEY NEED US." ALCOA IS NEGATIVE ON FURTHER U.S. AID AND LOANS AND RESENTS FAVORABLE PUBLICITY CUBANS ARE GETTING IN COMPARISON TO CRITICISM HEAPED ON BAUXITE COMPANIES. ALCOA ALSO STATED CATEGORIC OPPOSITION TO INTERNATIONAL COMMODITY AGREEMENT ON BAUXITE. THEY WOULD LIKE USG TO URGE GOJ TO COOPERATE WITH COMPANIES AND MODERATE ITS ANTAGONISM. ALCOA APPRECIATED THE WAY WE HANDLED THE RECENT FLURRY OVER PAST CORPORATE POLITICAL PAYMENTS.

B. REYNOLDS EMPHASIZED IMPORTANCE OF JAMAICA TO U.S. AND WANTS TO AVOID ANY DAMAGING CONFRONTATION. THEY URGED USG TO ENGAGE MANLEY IN DIALOGUE AND FEEL SOME KIND OF GOVERNMENT ASSURANCES ARE NEEDED TO REESTABLISH INVESTOR CONFIDENCE. REYNOLDS EXECUTIVES FELT THAT IN PAST U.S. HAD GIVEN MANLEY THE IMPRESSION THAT WE DID NOT MUCH CARE HOW HE HANDLED BAUXITE COMPANIES.

C. KAISER ALSO STRESSED IMPORTANCE OF JAMAICA AND FELT USG COULD HAVE BEEN MORE HELPFUL TO BAUXITE COMPANIES BY GIVING MORE ATTENTION TO BILATERAL RELATIONS. THEY SAID KAISER DID NOT SHARE FEELING OF SOME BAUXITE COMPANIES
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THAT WE SHOULD WITHHOLD LOANS TO PENALIZE GOJ. THEY SUGGESTED HIGH LEVEL VISIT MIGHT RESTART DIALOGUE AND BUILD CONFIDENCE IN US/GOJ RELATIONSHIP.

D. REVERE IS CLEARLY CONCERNED ABOUT ITS SITUATION AND PREOCCUPIED WITH ITS LEGAL TROUBLES. MOLOWA'S ONLY SUGGESTIONS FOR IMPROVEMENT WERE THAT IT WOULD BE HELPFUL IF WE COULD HELP GOJ BORROW CAPITAL.

7. BAUXITE LEVY AND PRODUCTION LEVELS. ALL COMPANIES FELT LEVY WILL NOT BE RAISED ABOVE PRESENT 8 PERCENT. THEY ARE TROUBLED ABOUT MINIMUM PRODUCTION LEVELS BUT HAVE FOUND GOJ MORE FLEXIBLE THAN EXPECTED ON THIS POINT. ALCOA IS COMPLETELY CLOSED DUE TO THE EXPLOSION IN EARLY JULY. THEY WILL BE ABLE TO REOPEN 50 PERCENT OF THEIR

CAPACITY IN SIX WEEKS BUT THE OTHER 50 PERCENT WILL BE OUT OF PRODUCTION FOR ONE YEAR. THEY ESTIMATED THEIR PRODUCTION FOR THIS YEAR AT 800,000 TONS AND SAID GOJ BAUXITE REVENUE WOULD BE ONLY HALF OF THAT ORIGINALLY PLANNED. REYNOLDS THOUGHT THE ECONOMIC SITUATION HAD MADE THE GOJ MORE REALISTIC. THEY THOUGHT THE GOVERNMENT IS PLANNING TO ESTABLISH A MINING COMMISSION AND THIS MIGHT BE HELPFUL IN FORCING THE GOJ TO TAKE ACCOUNT OF MARKET FACTORS WHICH NOW ONLY THE COMPANIES HAVE TO FACE. REYNOLDS REDUCED PRODUCTION LAST YEAR BY 30 PERCENT AND IS PRESENTLY STOCKPILING 500,000 TONS OF ITS CURRENT 2.8 MILLION TONS PRODUCTION TO BUILD A ONE-YEAR SUPPLY OF JAMAICAN BAUXITE.

8. POLITICAL SITUATION AND DESTABILIZATION CHARGES.

A. ALL COMPANIES EXPRESSED DEEP CONCERN AND PESSIMISM ABOUT POLITICAL TRENDS. THEY EXPRESSED GENERAL BELIEF THAT MANLEY WOULD WIN ELECTION OR POSTPONE IT. THERE WAS SOME FEELING STATE OF EMERGENCY IS BEING USED TO ESTABLISH LEFTIST DICTATORSHIP, BUT MOST FELT MANLEY IS PRODUCT OF HIS ADVISERS AND CIRCUMSTANCE AND IS NOT COMMUNIST. ALTHOUGH KAISER SAID MANY JAMAICANS BELIEVE KAISER PERSONNEL ARE CONNECTED WITH CIA, ALL COMPANIES AGREED THEY HAD NOT YET BEEN DIRECTLY AFFECTED BY DESTABILIZATION CHARGES. REYNOLDS SAID THEY KNEW OF NOTHING

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DONE BY ANY OF THE COMPANIES WHICH COULD HAVE LED TO THESE ALLEGATIONS. THEY FELT MANLEY'S RHETORIC IS LARGE ELEMENT IN THIS PROBLEM. REVERE EXPRESSED BELIEF THAT U.S. IS SIMPLY SCAPEGOAT FOR GOJ FRUSTRATIONS OVER INABILITY TO SOLVE THEIR PROBLEMS.

B. KAISER'S MAIER, WHO HAD JUST COME FROM MIAMI MEETING WITH MEYER MATALON, SAID CIA CHARGES HAD GROWN OUT OF GOJ PERCEPTIONS THAT USG IS UNSYMPATHETIC TO JAMAICAN PROBLEMS AND ANGRY ABOUT MANLEY'S CUBAN POLICY. DELAY OF EDUCATION LOAN CITED AS EVIDENCE. MATALON REPORTEDLY BLAMED KINGSTON VIOLENCE ON THREE FACTORS: JLP EFFORTS TO GENERATE UNREST IN ORDER TO WIN ELECTION OR TOPPLE MANLEY GOVERNMENT BY FORCE; CIA INVOLVEMENT, OF WHICH MATALON PERSONALLY CONVINCED; CUBANS IN FLORIDA WORKING WITH CIA. MATALON CITED ALLEGED USG UNRESPONSIVENESS TO GOJ REQUEST FOR 100 MILLION DOLLAR LOAN AS FURTHER EVIDENCE, AND SAID HE WAS UPSET WITH AMBASSADOR GERARD FOR ALLEGEDLY TRYING TO PRESSURE GOJ INTO UNSATISFACTORY SETTLEMENT WITH REVERE.

9. UNDER SECRETARY ROGERS TOLD ALL COMPANIES IT MAKES

NO DIFFERENCE TO USG WHO RUNS GOJ. DESTABILIZATION CHARGES ARE NONSENSE. WE HAVE NO GREAT PLAN FOR RESCUING JAMAICA BUT WE HAVE OFFERED COOPERATION. WE WOULD LIKE TO SEE THE BAUXITE DISPUTES SETTLED. WE UNDERSTAND MANLEY'S FRUSTRATION BUT OUR CAPACITY TO HELP IS GENUINELY LIMITED. MANLEY IS VOLATILE AND SEES SHADOWS LURKING IN EVERY CORNER. QUESTION IS NOT WHETHER TO IMPROVE RELATIONS BUT HOW.

10. FOREGOING CONTAINS PROPRIETARY INFORMATION ON ALUMINUM COMPANY POSITIONS AND NEGOTIATIONS AND SHOULD BE PROTECTED ACCORDINGLY. KISSINGER

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